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IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC., AN ARIZONA CORPORATION TO DETERMINE THE FAIR VALUE OF ITS PROPERTIES FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES AND TARIFFS DESIGNED TO DEVELOP SUCH RETURN	DOCKET NO. W-02465A-01-0776 BELLA VISTA WATER CO., INC.'S NOTICE OF FILING SUMMARIES TO PRE-FILED TESTIMONY

Bella Vista Water Co., Inc. ("Bella Vista"), by and through its attorneys, hereby files its Summaries of Pre-Filed Testimony of Judith A. Gignac, Ronald L. Kozoman, CPA, and Thomas Bourassa previously filed in the above-referenced docket.

Respectfully submitted this 24th day of July, 2002.

MARTINEZ & CURTIS, P.C.

By: [signature]
William P. Sullivan, Esq.
Paul R. Michaud, Esq.
2712 North Seventh Street
Phoenix, Arizona 85006-1090
Attorneys for Bella Vista Water Co., Inc.

Arizona Corporation Commission
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PROOF OF
AND CERTIFICATE OF MAILING

I hereby certify that on this 24th day of July, 2002, I caused the foregoing document to be served on the Arizona Corporation Commission by hand-delivering the original and ten (10) copies of the above to:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

With copies of the foregoing hand-delivered this 24th day of July, 2002 to:

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Daniel W. Pozefsky, Esq.
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007
Intervenor

With copies of the foregoing mailed this 24th day of July, 2002 to:

Jane L. Rodda, Administrative Law Judge
Arizona Corporation Commission
400 West Congress
Tucson, Arizona 85701-1347

Judith Gignac
Bella Vista Water Co., Inc.
Post Office Box 1150
Sierra Vista, Arizona 85636-1150

Ron Kozoman, CPA
1605 West Mulberry Drive
Phoenix, Arizona 85015

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LAW OFFICES
MARTINEZ & CURTIS, P.C.
2712 NORTH 7TH STREET
PHOENIX, AZ 85006-1090
(602) 248-0372

SUMMARY OF PRE-FILED TESTIMONY
BELLA VISTA WATER CO., INC.
DOCKET NO. W-02465A-01-0776

JUDITH A. GIGNAC

Ms. Gignac did not file direct pre-filed testimony. Her rebuttal and rejoinder testimony address the issues of rate of return, rate base, professional fees, directors' fees and rate design.

RATE BASE

Ms. Gignac objects to the exclusion of 31% of the Company's rate base ($1,797,297) that is now serving customers and the failure to provide a return thereon. The Company filed this rate case specifically to time the implementation of new rates with the completion of the plant improvements associated with the 2.1 million dollar WIFA loan and approved by the Commission in 1999 by Decision No. 62026. The Company commenced repaying the WIFA loan in July of 2001 and will have made more than a year's worth of payment on the loan before new rates are in effect. Exhibit A to her rebuttal testimony provides descriptions of the various projects composing the post-test year plant and includes the date the project was commenced and the date the project was placed in service. The actual costs associated with the projects are set forth on Rebuttal Schedule C-2, sponsored by Mr. Bourassa. Post-test year plant was included in rate base in each of the last three rate cases in which Bella Vista or Nicksville was involved. The Company reasonably expected similar treatment when it proceeded to fund capital improvements with the WIFA loan and when it filed this rate case.

The largest of the post-test year additions involve two 12-inch lines to interconnect portions of the Company's system and increase reliability. Importantly, had these improvements not been in place during the summer of 2002, the Company believes there would have been significant curtailments of service in the Rail Oaks system and possibly others. In fact, even with the improvements, the Rail Oaks system was required to go to stage 2 under its curtailment tariff. Based upon her experience and knowledge of the system, Ms. Gignac has determined there will be no material change in operating expenses (excepting depreciation expense). To the extent there are some minor changes arising from these additions, they will result in a net increase to expenses; increases which the Company is not seeking to recover at this time. Therefore, Staff and RUCO have improvidently invoked the matching principle in an effort to disallow 31% of the Company's rate base.

RATE OF RETURN

Ms. Gignac expresses her opinion that 10% constitutes the minimum return that should be provided the Company on its full rate base, including the post-test year plant. However, the Company is willing to accept as low as a 9.5% return on its full rate base in order to put this case behind it. She criticizes Staff and RUCO for relying exclusively on complex calculations reflected in the DCF and CAPM analyses and expresses her belief that investors are more likely to rely upon the returns reflected in publications such as Value Line or what a trusted financial analyst has to say about a company's future prospects. RUCO and Staff are criticized for their failure to recognize the risks associated with Bella Vista Water Co., Inc.'s operations, such as drought, the dependency on Fort Huachuca, the issues related to the San Pedro River and the general adjudication, new governmental regulations, and the limited growth of the Company.

Finally, Ms. Gignac indicates that to the extent other considerations result in the Commission providing less than a 10% return to the Company, the Commission should consider providing up to a 1% incentive return to reflect the above-average management of the Company.

DIRECTORS' FEES

$31,200 represents the actual cost of directors' fees incurred by the Company during the test year. The fees were incurred in accordance with the Company's policy providing each Director a $450 monthly retainer for ongoing services to the Company during the year as well as their preparation for and attendance at the annual meeting, plus $1,000 per day for their attendance at a Board of Directors or shareholders' meeting (excluding the annual meeting). This level of compensation is reasonable, especially considering that all three directors are professionals and render a service to the Company. The downward adjustment to $9,000 recommended by RUCO is arbitrary and has no basis in fact.

PROFESSIONAL AND CONSULTING FEES

Having recent environmental site assessments available benefits the Company and its customers. The assessment will assist in decisions to expand well production, avoid contaminated soils and comply with any site assessment inquiries that might be made by ADEQ. Moreover, the reason for exploring the acquisition of three surrounding water companies was to find alternative production capabilities due to the water production difficulties being experienced in the southern portion of Bella Vista's system. It was prudent for the Company to explore such alternatives. As a result, the prudent cost incurred by these two activities should be borne by the ratepayers. However, the Company has proposed amortizing the recovery over a three-year period.

RATE DESIGN

Exhibit B to Ms. Gignac's rebuttal testimony sets forth the responses to RUCO's data requests on rate design. The responses demonstrate that despite the current rate structure, water usage by customers with meters of 1 inch or smaller increased since 1997, while customers with meters larger than 1 inch decreased water usage during that same period. Customers with meters larger than 1 inch are largely apartments, mobile home parks, multi-family dwellings, public schools with a few Inns, motels, strip malls and small commercial customers. Larger meters often serve more than one water user and the water demand recorded on the meter represents the cumulative impact of these individual customers (often residential customers), whom seldom, if ever, pay the water bill directly. Thus, a third tier on these meters would not send a price signal to the ultimate water customer, but would simply further skew the cost recovery responsibility toward large meters.

average ($360 per customer versus the national average of $402 per customer); (iii) proactive efforts to maintain compliance with the Arizona Corporation Commission ("ACC" or "Commission") and Arizona Department of Environmental Quality ("ADEQ") regulations; and (iv) its willingness to make necessary capital investment, both in the way of new plant and acquisition of new systems, to improve the reliability of service, the dependability of production of storage as well as transmission. Mr. Kozoman recommends the Commission consider these factors and provide an incentive return for above-average management practices.

Rate Design and Rates

Mr. Kozoman explains why the three-tier rate design currently utilized by Bella Vista remains an appropriate rate structure and he sets forth the proposed water service charges and miscellaneous charges that are necessary to generate the additional $388,764 in gross revenues needed to achieve his recommended rate of return of 9.5% on the Company's OCLD Rate Base of $7,488,816. The rates are set forth on page 37 of Mr. Kozoman's Rejoinder Testimony and the miscellaneous charges are set forth on Schedule H-3 of his Direct Testimony. No party has objected to the adjustment in miscellaneous charges requested by the Company.

Mr. Kozoman criticizes the rates proposed by Staff and RUCO. Due to the radical shifting of costs proposed by RUCO's rate design, Mr. Kozoman's rebuttal testimony includes a cost of service study that demonstrates that rates proposed by Staff and RUCO inequitably shift costs to larger meters. (Rebuttal Schedules G-1 and G-2) Mr. Kozoman explains that the Company's rate design is appropriate and that the third tier should not be extended beyond 1-inch meters and smaller. The vast majority of the water consumption is reflected in 1-inch meters and smaller. The larger meters are primarily reflective of master metered trailer parks, apartment complexes where the actual consumer of water does not receive the price signal; there is little evidence that further conservation could be achieved.

Rate Base and Unconstitutional Taking

In his Rebuttal and Rejoinder, Mr. Kozoman demonstrates that the refusal to recognize post-test year plant in service, plant that is presently serving customers and constitutes 31% of the Company's rate base, constitutes an unconstitutional confiscation of the Company's property. He testifies that the actual return on equity that will be earned by the Company is substantially below the amounts both RUCO and Staff have found constitute a reasonable return on equity and necessary to maintain the financial health of the Company and to attract new capital.

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SUMMARY OF PRE-FILED TESTIMONY
BELLA VISTA WATER CO., INC.
DOCKET NO. W-02465A-01-0776

RONALD L. KOZOMAN, CPA

Mr. Kozoman's direct pre-filed testimony addresses the topics of rate of return, cost of capital, rate design, the level of rates and miscellaneous charges. In rebuttal and rejoinder, Mr. Kozoman addresses the testimony of ACC Staff and RUCO on these topics and also addresses the issues of rate base and the unlawful taking of the Company's property.

Rate of Return

After considering the arguments of Staff and RUCO, re-examining the most recent financial data available on comparable companies and updating his Discounted Cash Flow analysis ("DCF") and Capital Asset Pricing Model ("CAPM"), Mr. Kozoman is recommending a 9.5% rate of return on an original cost less depreciation rate base (for this case "fair value"). This is somewhat higher than the Company's weighted cost of capital of 9.042% (Rebuttal Schedule D-1) but well below than the average rate of return being earned by publicly traded water companies (excluding Southwest Water) of 10.85% and well below the average authorized return of such water companies of 10.63% (Rebuttal Schedule D-4). Alternatively, the Company would also accept the 9.66 rate of return recommended by RUCO, provided it is applied against the $7,488,816 fair value rate base supported by the Company.

Mr. Kozoman criticizes the rate of return recommendations of Staff and RUCO, inter alia, for their: (i) blind adherence to the results of subjective DCF and CAPM analyses, (ii) their failure to adjust for the actual risks actually confronting the Company (e.g., the relative smallness of the Company, its static growth, the potential impact of the general adjudication on its water rights and the cost of the general adjudication, changes in water quality standards including arsenic and radon, the perceptions of investors to the Commission's regulation of water utilities in Arizona, the significant impact on water usage and water availability arising from the Company's location in the desert southwest, the potential for restrictions both on water usage and development arising from the Company's proximity to the San Pedro Riparian Conservation Area), (iii) Staff's mismatch of the Company's capital structure and the assets included in rate base, (where the 2.1 million dollar WIFA debt was used to finance plant and was drawn down as plant was constructed), (iv) the use of theories that are intended to drive the price of stock to reflect only the original cost value of the plant contrary to the precepts of fair value embodied in Arizona's constitution and (v) Staff's use of the spot market to calculate returns.

1. Incentive Return for Above –Average Management

Mr. Kozoman further testifies that the Company should be rewarded for its above average management as reflected in (i) the provision of a high level of service with a lesser investment per customer in net plant that the national average ($1,290 per customer versus the national average of $1,888 per customer); (ii) a lower expense per customer than the national

SUMMARY OF PRE-FILED TESTIMONY
BELLA VISTA WATER CO., INC.
DOCKET NO. W-02465A-01-0776

THOMAS BOURASSA

Mr. Bourassa offered pre-filed testimony on the Company's rate base of $7,488,816 (versus Staff's $5,534,519 and RUCO's $5,687,016) and income statement (TY Operating Revenues of $2,908,067(vs. Staff's $2,907,775 and RUCO's $2,908,067); TY Operating Expenses of $2,435,335 (vs. Staff's $2,394,998 and RUCO's $2,385,278); TY Operating Income of $472,73(vs. Staff's $512,777 and RUCO's $522,787)). Based upon a need to achieve a 9.5% rate of return on a rate base of $7,488,816, Mr. Bourassa testifies there was an operating income deficiency of $238,707 (vs. Staff's excess of $52,128 and RUCO's deficiency of $11,847). When multiplied by the revenue conversion factor, Mr. Bourassa concludes the Company must generate an additional $388,766 in additional operating revenue or a 13.37% increase. In rebuttal and rejoinder, Mr. Bourassa addresses the adjustments proposed by Staff and RUCO to the Company's rate base and income statement, as well as the Staff's recommended decrease in operating revenue of $86,727 and RUCO's recommended nominal increase of $19,333.

RATE BASE

A. Post-Test Year Plant ($1,797,279)

The largest issue with rate base is the treatment of post-test year plant additions of $1,797,279, which are in service and benefiting existing customers. Mr. Bourassa addresses the matching arguments raised by both Staff and RUCO by looking at the following six factors:

1. The plant was used and useful in serving customers that existed during the test year and was completed more than six months before hearing and eight to ten months before the new rates will be in place;
2. The plant was a necessary and prudent investment, increases the reliability of the system and benefits existing customers;
3. The plant represents a material portion of the Company's plant and 31% of its rate base;
4. The plant's financing was approved by the ACC, has a material impact on the Company's capital structure and cost of capital and recognition of the debt without the plant creates a material mismatch between the capital structure and the assets reflected therein;
5. The plant was not constructed for new customer growth and the Company's customer base is stagnant regardless of the plant, so there is no mismatch between revenue and plant; and
6. The plant will not cause operating expenses (other than depreciation expense) to appreciably change, either up or down. The only material change arising from the inclusion of the plant, depreciation expense, is a known and easily calculated expense and has been accounted for by the Company. Any other change in operating expenses related to the plant,

while immaterial, would be an increase, which the Company is not seeking to recover in rates at this time. Staff and RUCO have the burden of demonstrating that a material mismatch exists that justifies excluding 31% of the Company's rate base. They have not met this burden.

B. Working Capital ($143,846)

The Company and RUCO both used the long recognized and accepted formula method to compute working capital. Mr. Bourassa rebuts Staff's proposal to adjust working capital to zero without providing any record evidence that this is the actual level of working capital for the Company

C. Misc. RUCO Rate Base Adjustments

RUCO failed to accept Staff's calculation of accumulated depreciation and improperly used depreciation rates set for Nicksville Water Company where: Nicksville Water Company, due to merger, no longer exists and where the Company has used rates recommended by Staff in the last rate case ($45,212 at issue). RUCO also failed to accept Staff's adjustment to advance-in-aid-of-construction balances ($130,604 at issue) and has never explained the basis of its disagreement with Staff. RUCO's proposes to deduct customer deposits ($98,361) from rate base and include interest thereon ($5,902) as an operating expense. The proposal fails to recognize that customer deposits are restricted funds and are not available to the Company. Furthermore, if the Commission desires to adopt this approach, it should do so by general rule or generic policy to ensure all companies are treated similarly.

D. Deferred Income Tax

After the issues of revenue requirement, accumulated depreciation, rate base, inclusion of WIFA debt in capital structure and the use of the interest thereon as an offset to income tax are resolved, the differences in deferred income tax should disappear.

INCOME STATEMENT

The Company accepted almost all of Staff's adjustments to the income statement. In doing so, the Company accepted most of RUCO's adjustments, in whole or in part. A few differences remain, as set forth in Rejoinder Schedules C-1 Comparison, pages 2 and 3.

A. Differences with both Staff and RUCO

Depreciation Expense. Staff and RUCO have failed to include the depreciation expense related to the post-test year plant ($40,717 to $41,395, at issue).

Property Taxes. Staff and RUCO have failed to use the income level for the years 2000, 2001 and the new rates to calculate property taxes ($5,387 to $33,373, at issue)

Income Taxes. Differences arise primarily out of the revenue levels being recommended, but Staff's mismatch between capital structure and rate base and its use of the interest from the WIFA loan to lower income taxes also is an issue ($52,307 to $136,054, at issue)

Professional and Consulting Costs. Staff has improvidently disallowed fees incurred in performing environmental site assessments and to perform diligence on the potential acquisition of additional water production capacity. RUCO disallowed a portion of the foregoing fees. ($3,335 to $10,926 at issue)

B. Differences with Staff

Operating Revenues. Staff has not commented on, but has not accepted RUCO's $279 adjustment to further annualize operating revenues.

Purchase Power. Staff has not commented on, but has not accepted RUCO's $3,106 adjustment to purchase power cost arising from an increase in sales tax.

There are also small, inconsequential unexplained differences in Other Utility Expense ($45) and Telephone ($59).

B. Differences with RUCO

Wages, Salaries and Benefits. RUCO, without explanation, fails to accept Staff's adjustment recognizing the additional employee hired by the Company. ($30,062 at issue)

Director's Fees. RUCO has arbitrarily adjusted the directors' fees to $9,000 per year. Directors' fees are paid pursuant to a resolution that establishes a monthly retainer of $450 per director and includes compensation for attendance at the annual meeting required by law. In addition, Directors receive $1,000 for each day, or portion of a day, spent in directors' meetings. There is no contention that the Board of Directors is not performing its function, that the number of Directors is unreasonable or that there were excessive meetings. ($22,200 at issue)

Water Testing. RUCO, without explanation, fails to accept Staff's water testing expense. RUCO has never explained why the adjustment suggested by Staff is not appropriate.

Amortization Expense. RUCO has $13,295 less amortization expense than Staff or the Company. The difference has not been adequately explained by RUCO.

Interest on Security Deposits. This is a companion adjustment to RUCO's proposal to deduct customer deposits from rate base. ($5,902 at issue)

Repairs and Maintenance. RUCO has not explained why it has failed to accept the capitalized figures proposed by Staff. ($3,335 at issue)

Hazard Insurance. RUCO has increased Hazard Insurance expense. The Company believes this is related to RUCO's recharacterization of Workman Compensation expense, but is not sure ($3,292 at issue).

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